



Early Journal Content on JSTOR, Free to Anyone in the World

This article is one of nearly 500,000 scholarly works digitized and made freely available to everyone in the world by JSTOR.

Known as the Early Journal Content, this set of works include research articles, news, letters, and other writings published in more than 200 of the oldest leading academic journals. The works date from the mid-seventeenth to the early twentieth centuries.

We encourage people to read and share the Early Journal Content openly and to tell others that this resource exists. People may post this content online or redistribute in any way for non-commercial purposes.

Read more about Early Journal Content at <http://about.jstor.org/participate-jstor/individuals/early-journal-content>.

JSTOR is a digital library of academic journals, books, and primary source objects. JSTOR helps people discover, use, and build upon a wide range of content through a powerful research and teaching platform, and preserves this content for future generations. JSTOR is part of ITHAKA, a not-for-profit organization that also includes Ithaka S+R and Portico. For more information about JSTOR, please contact support@jstor.org.

COMMENTS ON THE PRICE SITUATION

THE COMMODITY PRICE MOVEMENT SINCE NOVEMBER 1918

THE rise in commodity prices since the signing of the armistice has not been limited to the United States. In foreign countries for which indices of wholesale prices for August or later are available — England and Canada — the price level at the present time is considerably higher than it was a year ago. In all countries — England, France, Italy, and other European countries as well as Canada and the United States — there was a sharp recession in wholesale prices following the signing of the armistice. From the evidence available this recession reached its turning point last spring in all countries, the price tendency since then being upward. Prices in the United States and Canada are now 12 or 15 per cent higher, and in England, 15 or 20 per cent higher than they were at the low point last March. The following table presents the available price indices relative to November 1918 as 100.

INDICES OF WHOLESALE PRICES IN VARIOUS
COUNTRIES RELATIVE TO PRICES OF
NOVEMBER 1918 AS 100

Date	England		France	Italy †	Canada	United States			
	Economist	Statist	Statistical office	Professor Bachi	Dept. of Labor	Bureau of Labor Statistics	Dun	Bradstreet	Annalist's (Food)
1918									
November . . .	100	100	100	100	100	100	100	100	100
December . . .	98	100	99	88	99	100	100	101	101
1919									
January	94	98	97	75‡	98	99	100	98	102
February	93	96	95	74‡	96	96	95	93	98
March	92	95	94	76‡	95	98	94	91	102
April	93	95	93	77‡	96	99	95	91	109
May	96	100	91	78‡	98	100	96	91	109
June	100	102	92	..	98*	100	99	96	105
July	104	106	..	..	101*	106	101	100	107
August	105	109	..	..	103*	110	105	106	106
September . . .	106	110	..	..	104*	107	103	103	99
October	109	115	..	..	..	..	105	103	97
November . . .	..	..	..	..	..	..	..	105	..
December . . .	..	..	..	..	..	..	..	..	..

* Preliminary figure.

† For a large number of commodities the price is fixed — business is carried on by the state or the consortiums — and there is no "market" price.

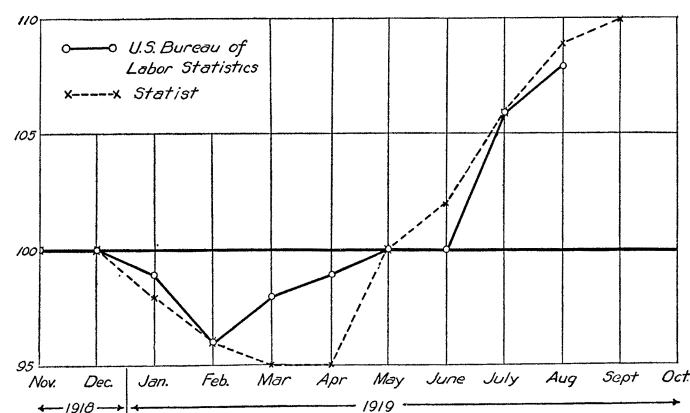
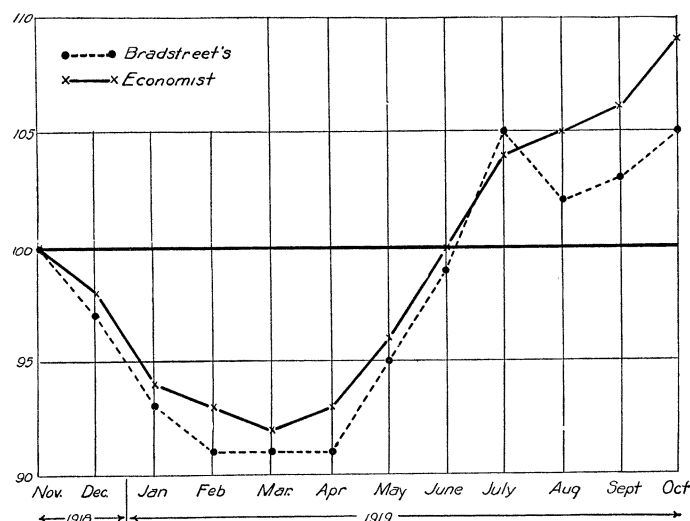
‡ Since January 1919, the basis of calculation for cotton has been modified.

§ Secured by averaging the *Annalist's* weekly index numbers, a week being assigned to that month in which it has four or more days.

The general price changes that have occurred in the United States and England since November 1918 are remarkably similar. The accompanying chart presents a comparison (1) between the *Economist* indices for England and the *Bradstreet* indices for the United States, and also (2) between the *Statist* indices for

England and the indices of the United States Bureau of Labor Statistics. All series are expressed relative to prices in November 1918 as the base.¹ The correspondence of the price movements is greater than was expected considering the difference in the commodities entering each index.

Although the price comparisons just made do not give an adequate basis for precise quantitative con-



clusions yet this much is clear: the general movements of prices in England and the United States since November 1918 are similar and prices are now on an appreciably higher level than they were a year ago.

CREDIT AND MONETARY EXPANSION SINCE NOVEMBER 1918

In conjunction with the increase of wholesale prices during the past year there has been credit and currency expansion in France, England, and the United States. In November 1918 the note issues of the *Bank of France* fluctuated between 29,073,000,000 and 30,821,000,000 francs; total reserves averaged 5,771,000,000 francs; the ratio of total reserves to the sum of deposits and note circulation ranged between 17.0 and 17.9 per cent. Since January there has been a steady

¹ Since the *Bradstreet* series is dated the first of each month, although based on quotations for the end of the preceding month, the items are shifted back one month in making the comparison with the *Economist* series.

increase in note circulation, some increase in total reserves, and a steady decrease in the reserve ratio. In October of this year the note circulation for the first time exceeded 36 billion francs, reaching 37,344,000,000 francs on October 30; total reserves averaged 5,865,000,000 francs for the month; on October 30 the ratio of reserves to demand liabilities reached the lowest point of the year, 14.4 per cent. In other words, since the signing of the armistice note issues of the Bank of France have increased one-fifth, a rate of increase equal to that maintained for the war period of 1915-18. Inflation in France has continued, then, at the war-time rate.

The *Bank of England* has been following a policy of moderate restriction since the signing of the armistice. Deposits have decreased, coin and bullion have increased from about £75,000,000 in November 1918 to slightly over £88,000,000 for the period July-October of this year, and the ratio of coin and bullion in both departments to the sum of deposits and note circulation has increased from about 32 per cent in November 1918 to a range of 35-43 per cent in October 1919. The figures for the Bank of England, however, do not correctly picture the currency and credit situation in England. British currency notes and certificates outstanding have increased from £291,000,000 on November 6, 1918 to £335,000,000 on October 1, 1919, an increase of 15 per cent. After the signing of the armistice currency issues increased to a maximum of £349,000,000 on April 23; since the last named date the decrease has been fairly steady. We may conclude, however, that there has been currency inflation in England during the past year. There is evidence, however, in the statements of the Bank of England, in the recent increase in the Bank of England's minimum discount rate from 5 to 6 per cent,¹ and in the decreased currency issues, that further inflation will be strenuously opposed.

Not only has there been currency inflation in England during the past year but there has been a vast extension in bank credits. The following table shows the deposits of the principal English banks which publish statements in the middle of the year, for the period 1914-19:²

	Deposits (In million £'s)	Increase from preceding year	Percentage increase
June 30, 1914.....	751	...	..
" 1915.....	948	197	16
" 1916.....	992	44	5
" 1917.....	1073	81	8
" 1918.....	1356	283	26
" 1919.....	1762	406	30

During the year ending June 30, 1919 deposits increased 30 per cent, a more violent increase than was shown by any other year of the period.

In the United States figures for the *federal reserve banks* show that there has also been inflation during the past year. Federal reserve notes in actual circulation

BANK OF FRANCE

(UNIT: 1,000,000 FRANCS)

Date	DEPOSITS		Note circulation	Total reserves	Ratio of total reserves to the sum of deposits and note circu- lation
	Treasury	General			
1918					
November 7..	78	2,946	30,821	5,765	17.0
“ 14..	297	2,918	30,572	5,767	17.1
“ 21..	274	2,965	30,192	5,771	17.3
“ 28..	331	2,816	29,073	5,781	17.9
December 5..	258	2,557	28,733	5,788	18.3
“ 12..	228	2,388	29,028	5,791	18.3
“ 19..	41	2,452	29,271	5,792	18.2
“ 26..	112	2,366	30,250	5,796	17.7
1919					
January 2....	34	2,392	31,055	5,804	17.3
“ 9....	41	2,426	31,567	5,810	17.1
“ 16....	22	2,533	31,700	5,813	17.0
“ 23....	70	2,768	31,794	5,817	16.8
“ 30....	56	2,615	31,983	5,821	16.8
February 6...	54	2,585	32,367	5,824	16.6
“ 13...	88	2,664	32,507	5,826	16.5
“ 20...	38	2,648	32,492	5,839	16.6
“ 27...	34	2,656	32,716	5,841	16.5
March 6.....	77	2,571	33,092	5,851	16.4
“ 13.....	68	2,715	33,234	5,852	16.2
“ 20.....	110	2,767	33,262	5,854	16.2
“ 27.....	47	3,013	33,772	5,856	15.9
April 3.....	95	2,876	33,736	5,857	16.0
“ 10.....	41	2,880	33,998	5,856	15.9
“ 17.....	44	3,020	33,975	5,857	15.8
“ 24.....	27	2,720	33,978	5,857	15.9
May 1.....	42	3,384	34,100	5,858	15.6
“ 8.....	62	3,438	34,430	5,856	15.4
“ 15.....	168	3,308	34,324	5,857	15.5
“ 22.....	163	3,200	34,134	5,856	15.6
“ 29.....	146	3,402	34,061	5,856	15.6
June 5.....	78	3,503	34,371	5,857	15.4
“ 12.....	66	3,442	34,449	5,856	15.4
“ 19.....	61	3,302	34,450	5,855	15.5
“ 26.....	49	3,362	34,442	5,855	15.5
July 3.....	57	3,374	34,752	5,854	15.3
“ 10.....	74	3,186	35,008	5,858	15.3
“ 17.....	90	3,060	34,977	5,867	15.4
“ 24.....	104	2,952	34,932	5,867	15.4
“ 31.....	49	2,920	35,025	5,867	15.4
August 7....	148	2,860	35,286	5,866	15.3
“ 14....	86	2,879	35,152	5,870	15.4
“ 21....	57	2,969	35,064	5,869	15.4
“ 28....	82	2,977	35,090	5,869	15.4
September 4..	20	2,857	35,456	5,868	15.4
“ 11..	40	2,773	35,682	5,868	15.4
“ 18..	88	2,743	35,655	5,867	15.2
“ 25..	81	2,782	35,787	5,866	15.2
October 2....	65	2,754	36,256	5,866	15.0
“ 9....	57	2,762	36,726	5,865	14.8
“ 16....	71	2,762	36,799	5,865	14.8
“ 23....	89	3,109	36,840	5,865	14.6
“ 30....	63	3,186	37,344	5,863	14.4
November 6..	92	3,057	37,419	5,862	14.4
“ 13..	45	2,967	37,025	5,862	14.6
“ 20..					

¹ November 6, 1919.² See the London *Economist*, Oct. 18, 1919, p. 624.

BANK OF ENGLAND AND BRITISH CURRENCY
NOTES

(UNIT: £1,000,000)

Date	DEPOSITS		Note circulation	Coin and bullion	Ratio of coin and bullion to the sum of total deposits and note circulation	British cur- rency notes and certi- ficates out- standing
	Public	Other than public				
1918					%	
Nov. 6	31.7	131.4	64.7	74.1	32.5	290.9
" 13	30.1	138.7	64.9	74.6	31.9	293.8
" 20	29.7	142.7	65.2	75.2	31.6	295.2
" 27	30.4	143.7	66.0	75.8	31.6	296.3
Dec. 4	26.5	154.2	67.0	76.0	30.6	300.2
" 11	27.4	153.0	67.5	77.7	31.4	305.1
" 18	28.9	143.9	69.0	78.6	32.5	314.6
" 26	23.6	149.0	70.3	79.1	32.6	323.6
1919						
Jan. 1	26.3	214.9	70.2	80.0	25.7	323.2
" 8	28.2	140.2	70.1	80.5	33.8	317.9
" 15	28.2	124.8	60.7	80.5	36.2	312.0
" 22	27.2	126.6	69.0	80.3	36.0	308.2
" 29	26.6	121.6	69.3	80.7	37.1	307.5
Feb. 5	30.7	115.5	70.0	81.4	37.7	309.5
" 12	28.2	120.0	70.0	81.6	37.4	310.9
" 19	30.7	118.3	69.6	81.8	37.4	312.8
" 26	25.8	119.2	70.3	81.6	37.9	314.8
Mar. 5	25.7	128.7	71.1	81.3	36.0	318.2
" 12	24.4	125.9	71.4	82.4	37.2	321.1
" 19	27.2	121.8	72.2	83.4	37.7	324.2
" 26	25.6	121.8	73.6	84.3	38.1	328.1
Apr. 2	32.8	123.3	75.2	84.9	36.7	332.1
" 9	30.3	116.3	75.0	85.1	38.4	335.3
" 16	27.7	116.6	76.2	85.2	38.7	346.0
" 23	24.6	117.2	76.2	85.1	39.0	349.1
" 30	21.9	124.7	77.2	85.7	38.3	348.3
May 7	23.7	115.2	76.8	85.9	39.8	347.2
" 14	22.8	111.5	76.5	85.6	40.6	346.7
" 21	26.1	110.3	76.5	85.5	40.1	344.8
" 28	21.0	121.6	77.2	86.1	39.2	344.2
June 4	21.4	127.5	78.2	86.9	38.3	346.3
" 11	20.3	130.8	78.0	87.0	38.0	347.1
" 18	20.0	124.3	77.7	87.7	39.5	344.8
" 25	20.0	137.7	78.3	87.8	37.2	342.3
July 2	24.6	166.9	79.9	88.6	32.9	343.0
" 9	24.8	205.2	79.6	88.7	28.8	343.0
" 16	24.9	112.6	78.9	88.7	41.0	342.2
" 23	19.7	122.0	78.9	88.3	40.4	341.0
" 30	17.9	116.6	79.4	88.4	41.4	338.8
Aug. 6	22.9	99.8	80.1	88.3	44.5	340.4
" 13	22.5	89.2	79.7	88.3	47.0	338.8
" 20	23.4	95.2	79.5	88.3	45.5	334.3
" 27	23.3	94.9	79.8	88.2	45.6	331.0
Sept. 3	24.5	102.3	80.8	88.3	42.5	330.8
" 10	23.1	89.4	81.1	88.3	45.6	331.4
" 17	20.1	91.8	80.9	88.2	45.8	330.6
" 24	19.4	97.5	81.6	88.2	44.4	331.2
Oct. 1	35.9	121.2	84.1	88.2	36.5	335.0
" 8	23.2	120.3	84.4	88.1	38.7	339.5
" 15	22.2	99.9	83.7	88.1	42.8	
" 22	22.4	144.7	83.4	88.0	35.1	
" 29	22.8	116.2	84.5	88.1	39.4	
Nov. 5	19.8	109.5	86.0	88.0	40.9	
" 12	22.2	102.8	85.9	88.0	41.7	
" 19						

increased from \$2,516,000,000 on November 1, 1918 to \$2,753,000,000 on October 31, 1919, an increase of nearly 10 per cent. During the same interval net deposits increased from \$1,663,000,000 to \$1,850,000,000, or 11.2 per cent, the ratio of total cash reserves to demand liabilities decreased from 50.4 per cent to 47.9 per cent, and the ratio of gold reserves to demand liabilities decreased from 49.1 per cent to 46.4 per cent. It appears from these figures that during the past year there has been moderate expansion of the combined federal reserve banks, an expansion not explainable as a seasonal movement. The figures for the combined banks are far more significant than those for any individual federal reserve bank.

The reserve position of the *New York Federal Reserve Bank* is not as strong as that of the combined federal reserve banks. In November 1918 the ratio of total cash reserves to the sum of net deposits and federal reserve notes in actual circulation for the New York Federal Reserve Bank ranged from 43.2 per cent to 49.7 per cent; in October 1919 the ratio ranged between 41.2 per cent and 46.2 per cent. The ratio of gold reserves to the sum of net deposits and federal reserve notes in actual circulation decreased from 46.8 on November 1, 1918 to 38.2 on October 31, 1919. The ratio of total cash reserves to federal reserve notes in actual circulation, after setting aside 35 per cent against net deposits, decreased during the same period from 65 per cent to 48.2 per cent. The minimum ratios for the year ending October 31, 1919 occurred on October 17. These ratios were respectively: 41.2, 37.5, and 47.0. The decrease in the reserve ratios of the New York Federal Reserve Bank has been due to a decrease in cash reserves, especially in gold, rather than to an increase in demand liabilities. The total gold reserves ranged between \$604,000,000 and \$687,000,000 in November 1918; they increased to a maximum of \$783,000,000 on June 27 and then decreased to a minimum of \$527,000,000 on August 29; on October 31 gold reserves stood at \$576,000,000, a decrease of 16 per cent for the year. On November 1, 1918 net deposits were \$746,000,000; on October 31, 1919 net deposits were \$755,000,000. During the same interval federal reserve notes in actual circulation increased from \$722,000,000 to \$751,000,000. The increase in demand liabilities of the New York Federal Reserve Bank during the year was only 2.6 per cent, whereas the increase in demand liabilities of the combined federal reserve banks during the same interval was 10.1 per cent. The decrease in the reserve ratios for the New York Federal Reserve Bank is clearly due to the decrease in total cash reserves from \$730,000,000 on November 1, 1918 to \$626,000,000 on October 31, 1919 and of gold reserves from \$687,000,000 to \$576,000,000. The maximum cash reserves of the New York Federal Reserve Bank during the year were held on June 27 and amounted to \$835,000,000. The minimum cash reserves of the year occurred on August 29 and amounted to \$578,000,000. The dates of next lowest reserves are August 22 and

October 17, when the total cash held was \$606,000,000. The most striking thing, then, in the statement of the New York Federal Reserve Bank is not the increase of liabilities but the decrease of cash held from \$835,000,000 on June 27 to the minimum of \$578,000,000 on August 29. In this connection it should be remembered that the restrictions on the export of gold were removed on June 10, and reserves of the New York Federal Reserve Bank have undoubtedly been the main source of gold exports. From January 1 to June 10 the excess of gold imports over exports was \$29,613,000; from June 10 to September 10 the excess of gold exports over imports was \$182,430,000. Another influence which has resulted in smaller reserves in the New York Federal Reserve Bank is the decrease in the volume of government operations requiring payment in New York. During recent months New York has received smaller credits through the gold settlement fund on account of government operations, than formerly.

The bank statements do not show explicitly the manner in which the reserve positions of the New York Federal Reserve Bank and of the combined banks have been affected by speculation on the New York Stock Exchange. The burden imposed by speculation upon the federal reserve banks is partly revealed, however, by fluctuations in the item "bills bought in the open market." With high call rates ruling in New York it is far more profitable for member banks to lend to brokers on collateral notes than to purchase bankers' acceptances. If member banks withdraw their funds from the acceptance market it is necessary for the federal reserve banks to take their place and purchase acceptances. The statements of the combined federal reserve banks show that bills bought in the open market increased during the past year from a minimum of \$182,000,000 on May 9 to a maximum of \$455,000,000 on November 14. Since June 20 the item has been over \$300,000,000. To be sure, on October 31, 1919 it was \$394,000,000, only \$17,000,000, or 5 per cent, above the figure for November 1, 1918. A year ago, however, member banks were financing the purchase of Liberty bonds. Today, in spite of the termination of Liberty bond issues the funds of member banks are not used to a greater extent in the purchase of acceptances than they were a year ago.

The deposits and loans of all banks and trust companies in greater New York have also expanded during the past year. The increase in deposits during the year ended November 1, 1919 was 14.5 per cent; the increase in loans and investments was 11.9 per cent. Although there has been an increase in loans of New York banks and trust companies in 1919, that increase is less than it was in preceding years. Moreover, New York banks are not the only banks of the country showing marked expansion in 1919. The loans of all member banks in the United States increased 10 per cent and deposits increased 14.3 per cent on June 30, 1919 compared with June 29, 1918.

The recent action of the Federal Reserve Banks of

New York, Chicago, and Boston¹ in raising their rates of rediscount will tend to restrict further expansion. The significant thing in this action, however, is not the amount of the advance in rediscount rates, but rather the fact that there has been a change in rates. This marks a turning point in the policy of the Federal Reserve Board and probably forecasts further increases, if conditions call for such action. With the government's war financing about completed the Board will hereafter have a freer hand, and it may adopt a consistent policy looking toward the restraint of speculation and conservation of the nation's capital supply for the purpose of financing domestic and foreign business demands without further inflation. Such a policy would minimize, but it might not wholly prevent, further credit expansion in the United States.

In France, England, and the United States, then, there have been both price increases and credit or currency expansion during the past year. As a result of this expansion both the Bank of England and the federal reserve banks have increased their discount rates. This is evidence that resistance will be offered to further expansion in the two countries. The Bank of France has not yet shown any signs of deflation or of the adoption of a policy of credit restriction. With the termination of war financing this year it will probably be possible for England and the United States to prevent any considerable additional inflation. It is improbable, however, that a drastic policy of forcing deflation will be adopted in any of the three countries during the next six months or year. Moreover, the wisdom of such a policy, under the circumstances, is questionable.

CREDIT AND PRICES

The volume of credit and the level of prices are associated phenomena. The Federal Reserve Board has said with justice that "a situation which results in high prices cannot eventuate without the assistance and mediation of credit."² Any forecast of the level of commodity prices is also a forecast of credit and currency conditions.

Today the federal reserve banks have the largest gold reserves and the highest ratio of reserves to demand liabilities of any of the great banks of the world. They have the power to extend credit. Is there the incentive and probability that such credit will be extended? In order that there may be credit expansion there must be a demand for credit. At present there is an insistent demand for credit in the United States by business interests and speculators in our own country as well as by Europe for reconstructing her industries. If, in response to this demand, credit is granted in greater volume than goods are produced and saved in the United States, there will be credit inflation and further price increases in this country.

¹ Announced on November 3, 1919. Kansas City and Dallas have also raised their rates.

² *Federal Reserve Bulletin*, October, 1919, p. 914.

COMBINED FEDERAL RESERVE BANKS

(UNIT: \$1,000,000)

Date	Total earning assets	TOTAL BILLS ON HAND			Net deposits †	Federal re- serve notes in actual circulation	Total cash reserves	Ratio of total cash reserves to the sum of net de- posits † and fed- eral reserve notes in actual circula- tion *	Ratio of gold re- serves to the sum of net deposits † and federal reserve notes in actual circulation	Ratio of total cash reserves to federal reserve notes in actual circulation after setting aside 35% against net deposits †
		Bills discounted		Bills bought in open market						
		Secured by government war obliga- tions	All other							
1918										
November 1	2,241	1,253	493	377	1,663	2,516	2,106	50.4	49.1	60.6
“ 8	2,293	1,317	480	375	1,662	2,558	2,101	49.8	48.5	59.4
“ 15	2,299	1,358	439	378	1,666	2,563	2,110	49.9	48.6	59.6
“ 22	2,256	1,281	428	369	1,633	2,555	2,116	50.5	49.2	60.5
“ 29	2,312	1,413	403	375	1,668	2,569	2,120	50.0	48.7	59.8
December 6	2,370	1,467	396	371	1,704	2,585	2,121	49.5	48.2	59.0
“ 13	2,357	1,484	366	367	1,673	2,605	2,134	49.9	48.6	59.5
“ 20	2,301	1,300	307	341	1,550	2,664	2,134	50.6	49.3	59.7
“ 27	2,318	1,400	303	304	1,553	2,685	2,146	50.6	49.3	59.7
1919										
January 3	2,275	1,545	285	290	1,552	2,648	2,152	51.2	49.8	60.7
“ 10	2,241	1,485	273	278	1,576	2,591	2,162	51.8	50.3	62.1
“ 17	2,175	1,347	254	274	1,592	2,513	2,170	52.8	51.2	64.1
“ 24	2,223	1,498	264	285	1,680	2,467	2,168	52.3	50.7	64.1
“ 31	2,177	1,358	244	281	1,659	2,451	2,180	53.0	51.4	65.2
February 7	2,145	1,451	243	283	1,614	2,454	2,176	53.5	51.8	65.6
“ 14	2,281	1,603	234	275	1,745	2,468	2,185	51.9	50.3	63.8
“ 20	2,264	1,596	222	270	1,731	2,466	2,193	52.2	50.5	64.3
“ 28	2,340	1,668	212	277	1,797	2,472	2,189	51.3	49.7	63.1
March 7	2,348	1,701	186	273	1,802	2,489	2,205	51.4	49.9	63.3
“ 14	2,344	1,702	184	262	1,769	2,503	2,197	51.4	48.9	63.0
“ 21	2,343	1,692	190	262	1,769	2,511	2,209	51.6	50.0	63.3
“ 28	2,335	1,691	195	248	1,741	2,522	2,211	51.8	50.3	63.5
April 4	2,315	1,675	193	241	1,703	2,548	2,219	52.2	50.6	63.7
“ 11	2,399	1,767	200	219	1,778	2,549	2,212	51.1	49.5	62.4
“ 18	2,335	1,721	201	197	1,735	2,544	2,231	52.1	50.5	63.8
“ 25	2,355	1,761	190	186	1,752	2,550	2,240	52.1	50.4	63.8
May 2	2,383	1,788	179	195	1,775	2,549	2,237	51.7	50.1	63.4
“ 9	2,380	1,796	173	182	1,765	2,557	2,243	51.9	50.3	63.5
“ 16	2,455	1,863	175	185	1,865	2,532	2,246	51.1	49.5	62.9
“ 23	2,359	1,762	176	193	1,798	2,504	2,248	52.3	50.6	64.6
“ 29	2,402	1,803	186	184	1,831	2,519	2,255	51.8	50.3	64.1
June 6	2,264	1,621	190	198	1,712	2,513	2,270	53.7	52.1	66.5
“ 13	2,345	1,696	183	235	1,795	2,499	2,262	52.7	51.1	65.4
“ 20	2,342	1,622	216	275	1,771	2,488	2,234	52.5	50.8	64.9
“ 27	2,354	1,573	245	305	1,751	2,499	2,216	52.1	50.5	64.2
July 3	2,453	1,633	262	331	1,772	2,552	2,195	50.8	49.2	61.7
“ 11	2,530	1,685	251	360	1,842	2,538	2,180	49.8	48.2	60.5
“ 18	2,438	1,580	248	372	1,769	2,512	2,177	50.9	49.3	62.0
“ 25	2,483	1,616	251	376	1,797	2,504	2,161	50.2	48.7	61.2
August 1	2,468	1,613	235	375	1,766	2,507	2,156	50.5	48.9	61.4
“ 8	2,472	1,609	226	381	1,736†	2,532	2,152	50.4†	48.8†	61.0†
“ 15	2,441	1,523	220	374	1,689	2,541	2,152	50.9	49.2	61.4
“ 22	2,402	1,563	211	363	1,621	2,554	2,143	51.3	49.7	61.7
“ 29	2,449	1,609	206	363	1,630	2,581	2,136	50.7	49.1	60.7
September 5	2,480	1,635	212	355	1,624	2,612	2,137	50.4	48.8	60.1
“ 12	2,486	1,525	230	362	1,618	2,621	2,138	50.4	48.8	60.0
“ 19	2,350	1,384	262	354	1,500	2,621	2,162	52.5	50.8	62.5
“ 26	2,503	1,573	310	342	1,634	2,655	2,188	51.0	49.4	60.8
October 3	2,633	1,654	362	327	1,726	2,708	2,206	49.7	48.1	59.1
“ 10	2,695	1,673	401	327	1,744	2,742	2,202	49.1	47.5	58.1
“ 17	2,761	1,699	423	343	1,796	2,752	2,199	48.3	46.8	57.1
“ 24	2,752	1,666	416	369	1,773	2,753	2,214	48.7	47.4	57.9
“ 31	2,824	1,681	447	394	1,850	2,753	2,206	47.9	46.4	56.6
November 7	2,923	1,771	418	434	1,871	2,807	2,187	46.8	45.3	54.6
“ 14	2,901	1,701	439	456	1,858	2,808	2,200	47.1	45.7	55.2
“ 21										

For notes, see p. 14.

The situation now confronting the United States is not wholly unlike that of the war period. The Federal Reserve Board aptly says that at present "the dollar has lost its purchasing power because expansion of credit, under the necessities of war financing, proceeded at a rate more rapid than the production and saving of goods."¹ Whether the dollar will lose additional purchasing power, and commodity prices increase in the months to come, appears to depend largely upon the decision of the United States concerning the granting of credits, at home and abroad.

Europe and our own business men demand credit; but domestic consumers demand lower prices. The free extension of credit, and the continuation of the export of commodities in large volume would mean higher commodity prices in the United States; the contraction of credit, and greater available supplies of commodities for domestic consumption would mean lower commodity prices in the United States. The expansion of credit would lead to more rapid progress in Europe toward reconstruction than otherwise, and decrease social unrest abroad; in the United States business activity would continue and labor unrest would persist because of unequal increases of prices and wages. The contraction of credit would require Europe to reconstruct her industries chiefly with her own capital; the activity of business in the United States would slacken; consumers would benefit from lower prices. The important point to recognize in this connection is that we cannot extend large credits and have much lower commodity prices during the process of credit extension than those ruling at present. We cannot have our cake and eat it.

What are the possibilities as to credit extension? Will there be expansion or contraction? Four possibilities may be considered: (1) extension of credit on a considerable scale to meet both domestic and foreign requirements, (2) extension of credit for domestic but not for foreign needs, (3) extension of credit for foreign but not for domestic needs, and (4) contraction of credits for both domestic and foreign needs. Of these alternatives the first is the most probable. There is general agreement that the United States can best serve its own interests by aiding in the reconstruction of European industries. If we make credit advances

to Europe we cannot well refuse advances to our own industries, since Europe will use her credit to purchase the products of our industries. Advances to Europe on a considerable scale are 'probable; discrimination against domestic industries is highly improbable. This conclusion does not mean that credits will be granted recklessly to Europe or to our own industries. The interests of Europe will be best served, as her financiers realize, if she borrows the minimum amount possible and utilizes that amount as effectively as possible.

It would appear then from the foregoing considerations that a certain amount of credit expansion is ahead of us, which will inevitably tend to maintain present high prices or possibly produce still higher prices for commodities.

EXPANSION AND DISCOUNT RATES

The Federal Reserve Board has the power to fix the rates of rediscount of the federal reserve banks. Through rediscount rates it can make the purchase of credit expensive and hence control its use. The recent action of the Federal Reserve Banks of New York, Boston, and Chicago in raising their rates of rediscount indicates the inauguration of a policy of fixing rates "solely with a view of accommodating commerce and business."² The Federal Reserve Board announced definitely in the November *Bulletin* that it had adopted a policy of advancing discount rates. Just how effective the fixation of rediscount rates will be in controlling the credit market can only be determined by experience.

One precedent for the way in which the rediscount rate can be used to control the money market is that of the Bank of England. In England the official bank rate has been almost uniformly above the private rate of discount by banks to their customers. In this way banks find it expensive to borrow from the Bank of England. Consequently, they do not borrow normally and they have recourse to the Bank only when it is necessary for them to increase their reserves. It is possible that if the federal reserve banks are to control the credit situation in the United States and conserve their reserves for use in times of stringency, the rate of rediscount must be above rather than below the private rate. This would require marked increases in the rates of rediscount. It may be, however, that the Federal Reserve Board can control the money market even if rediscount rates are not made higher than commercial rates. The effect of the recent increase in rates was not due merely to the amount of the increase; the fact that an increase was made had a psychological effect upon the speculative market. Then too, the New York Federal Reserve Bank probably counseled member banks to adopt a policy of restriction. The wide powers given to the Board by the Federal Reserve Act may enable the Board to control the financial situation by other means than by maintaining rediscount rates above

* The following are the ratios of (1) *total cash reserves plus gold in transit or in custody in foreign countries* to (2) *gross deposits minus uncollected items and other deductions from gross deposits plus federal reserve notes in actual circulation*:—

Aug. 8	51.4	Sept. 5	51.7	Oct. 3	50.3
" 15	51.9	" 12	52.2	" 10	49.6
" 22	52.5	" 19	53.7	" 17	48.9
" 29	53.3	" 26	51.9	" 24	49.1
				" 31	48.1

† Prior to Aug. 8, 1919, *net deposits* are computed by subtracting from *total gross deposits* the figure for *uncollected items and other deductions from gross deposits*.

On and after Aug. 8, 1919, *net deposits* are computed by subtracting from *total gross deposits* the sum of *uncollected items and other deductions from gross deposits* and *gold in transit or in custody in foreign countries*. August 8 was the first date on which the last named item appeared in the statement.

¹ *Federal Reserve Bulletin*, October, 1919, p. 914.

² *Ibid.*, p. 910.

FEDERAL RESERVE BANK OF NEW YORK

(UNIT: \$1,000,000)

Date	Total earning assets	TOTAL BILLS ON HAND			Net deposits †	Federal re- serve notes in actual circulation	Total cash reserves	Ratio of total cash reserves to the sum of net de- posits † and fed- eral reserve notes in actual circu- lation *	Ratio of gold re- serves to the sum of net deposits † and federal re- serve notes in act- ual circulation	Ratio of total cash reserves to federal reserve notes in actual circulation after setting aside 35% against net deposits †
		Bills discounted		Bills bought in open market						
		Secured by government war obliga- tions	All other							
1918										
November 1.....	792	514	110	130	746	722	730	49.7	46.8	65.0
“ 8.....	851	575	104	134	768	730	703	46.9	44.1	59.4
“ 15.....	880	581	94	167	769	723	668	44.8	41.8	55.2
“ 22.....	919	556	95	172	806	719	664	43.5	40.6	53.1
“ 29.....	915	627	84	167	783	720	649	43.2	40.2	52.1
December 6.....	901	670	84	108	768	722	650	43.6	40.7	52.8
“ 13.....	841	625	73	100	784	719	726	48.3	45.2	62.9
“ 20.....	869	535	54	84	781	734	710	46.9	43.8	59.5
“ 27.....	925	611	42	69	763	737	637	42.5	39.4	50.2
1919										
January 3.....	856	692	44	76	795	725	735	48.3	45.1	63.0
“ 10.....	840	645	39	80	747	691	670	46.6	42.9	59.2
“ 17.....	856	569	34	84	759	666	641	45.0	41.3	56.3
“ 24.....	852	664	47	93	771	651	644	45.3	41.7	57.5
“ 31.....	875	591	43	84	772	648	621	43.7	40.0	54.2
February 7.....	801	640	49	65	752	650	677	48.3	44.6	63.7
“ 14.....	887	731	51	55	765	665	620	43.3	39.8	52.9
“ 20.....	850	707	47	41	746	667	640	45.3	41.6	56.8
“ 28.....	891	742	45	43	776	678	639	43.9	40.4	54.1
March 7.....	906	776	29	40	788	689	647	43.8	40.3	53.9
“ 14.....	872	761	29	17	786	710	701	46.9	43.4	60.0
“ 21.....	802	677	32	27	789	716	781	51.9	48.4	70.5
“ 28.....	798	662	30	41	780	723	788	52.4	48.9	71.2
April 4.....	776	629	26	56	793	736	833	54.5	51.0	75.4
“ 11.....	852	693	32	57	787	738	751	49.2	45.8	64.5
“ 18.....	826	672	29	55	796	738	787	51.3	47.9	68.8
“ 25.....	826	685	24	47	808	739	802	51.8	48.3	70.2
May 2.....	819	679	22	47	805	741	809	52.3	49.0	71.1
“ 9.....	882	742	20	44	801	751	752	48.4	45.2	62.8
“ 16.....	945	793	33	43	823	742	702	44.9	41.5	55.8
“ 23.....	846	709	23	44	826	735	797	51.0	47.7	69.1
“ 29.....	845	703	27	45	823	742	802	51.2	48.0	69.3
June 6.....	799	635	39	52	792	737	818	53.5	50.1	73.4
“ 13.....	800	630	31	72	770	736	789	52.4	48.9	70.5
“ 20.....	770	585	40	81	774	735	823	54.5	51.2	75.1
“ 27.....	787	568	53	101	800	737	835	54.3	50.9	75.3
July 3.....	912	674	66	113	770	763	706	46.0	42.8	57.1
“ 11.....	985	743	62	119	814	752	667	42.6	39.3	50.8
“ 18.....	880	668	62	92	713	743	663	45.5	42.2	55.6
“ 25.....	870	649	69	91	730	739	690	47.0	43.7	58.7
August 1.....	863	644	58	98	771	746	745	49.1	45.9	63.7
“ 8.....	867	642	54	107	722†	746	694	47.3†	44.0†	59.1†
“ 15.....	855	615	50	112	644	748	631	45.3	41.9	54.3
“ 22.....	839	619	47	106	599	750	606	44.9	41.3	52.8
“ 29.....	862	656	44	94	591	752	578	43.0	39.2	49.3
September 5.....	865	672	53	71	621	759	614	44.5	40.8	52.3
“ 12.....	826	611	50	71	616	753	644	47.0	43.2	56.8
“ 19.....	734	483	46	74	558	747	674	51.6	47.7	64.1
“ 26.....	807	618	48	76	636	753	691	49.7	46.1	62.2
October 3.....	905	674	73	88	721	762	686	46.2	42.7	57.0
“ 10.....	954	698	105	80	694	760	610	41.9	38.3	48.3
“ 17.....	974	699	117	85	714	758	606	41.2	37.5	47.0
“ 24.....	953	675	105	98	754	751	664	44.1	40.7	53.3
“ 31.....	994	702	311	85	755	751	626	41.6	38.2	48.2
November 7.....	1,035	795	109	54	772	764	618	40.2	37.0	45.6
“ 14.....	975	721	99	78	767	756	661	43.4	40.4	52.0
“ 21.....	954	702	89	86	758	759	683	45.0	41.7	55.1

For notes, see p. 16.

commercial rates, and the advance in rediscount rates may be moderate.

In making the forecast that there will be credit expansion in the United States we have assumed that the Federal Reserve Board will use the rate of rediscount to restrain speculation and not to force general liquidation. It appears reasonable to suppose that, although rates may be increased, the increase will be gradual and will be such as to keep the expansion of credit within safe limits rather than to bring about contraction. This means that any credit expansion that may occur will come about in spite of higher rediscount rates and higher rates for commercial loans.

PRICES AND PHYSICAL PRODUCTIVITY

The government campaign against the high price level has revolved about the slogan "work and save." This is excellent doctrine at any time and is especially needed just now. Production and saving are necessary if we are not to have still higher prices.

But it is doubtful if the habits of the nation as to the consumption of goods can be changed in a few months, or even years, as a result of a propaganda of thrift. During a national emergency, such as the one we have just been through, such a campaign will bear some fruit, but lacking such an emergency, an educational campaign of "work and save" offers little hope of securing sufficient results to bring about a permanent reduction of prices.

It is further to be considered that if the slogan *were* widely heeded, and diminished buying resulted in a slump in prices, a counter-campaign of "business as usual" would surely result. Price readjustment to a

* The following are the ratios of (1) *total cash reserves*, plus *gold in transit or in custody in foreign countries* to (2) *gross deposits*, minus *uncollected items and other deductions from gross deposits*, plus *federal reserve notes in actual circulation*:

Aug. 8	50.1	Sept. 5	48.5	Oct. 3	47.9
" 15	48.7	" 12	52.5	" 10	43.8
" 22	48.9	" 19	55.5	" 17	43.0
" 29	47.2	" 26	52.5	" 24	44.8
				" 31	42.3

† Prior to Aug. 8, 1919, *net deposits* are computed by subtracting from *total gross deposits* the figure for *uncollected items and other deductions from gross deposits*.

On and after Aug. 8, 1919, *net deposits* are computed by subtracting from *total gross deposits* the sum of *uncollected items and other deductions from gross deposits* and *gold in transit or in custody in foreign countries*. August 8 was the first date on which the last named item appeared in the statement.

lower level cannot come without making business less profitable. A rigorous and continuous application of the advice to refrain from buying goods would not bring price reductions without serious disturbance. In other words, a drastic slump in prices would be accompanied by liquidation, business failures, economic crisis. If the "work and save" propaganda were completely successful it would not avert an economic crisis but rather it would produce one.

The people of the United States, and of Europe as well, now appear to realize that greater production is most necessary. It is becoming obvious to the majority of the population that inefficiency, strikes, and other interruptions of the productive process result in a smaller volume of goods and higher prices. The desirability of saving, however, is not so clear to Americans. Saving is not an American habit and, as we have said, it is doubtful if preachments to save will have an appreciable effect on the price level.

Therefore, looking at the problem from all angles, it is reasonable to conclude that in spite of the conservative policy of the Federal Reserve Board and the government campaign against high prices, the need of financing a large volume of domestic trade, of providing for deferred construction work — both public and private — and of financing foreign commerce, will make a drastic contraction of credit impossible and a sharp fall of prices unlikely.

Although it is probable that some means will be found to finance foreign trade yet *the unexpected may happen and we may refuse to extend credit to Europe for the purchase of our commodities*. In case the United States does refuse to extend credit to foreigners a decided recession in commodity prices in the United States — beginning with foodstuffs and raw materials — appears to be inevitable. Furthermore, industrial reconstruction in Europe requires that foreign factories secure raw materials. Certain of these, such as cotton, are available in quantity only in the United States. The difficulty or impossibility of securing raw materials may result in the closing of factories abroad. An economic crisis and depression in Europe may then occur. A crisis there could hardly fail to have a very unfavorable effect on industry in this country and might produce a crisis here.